INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 24 October 2019

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the Commission Vice-President, Mr Dombrovskis, and the incoming President, Ms Lagarde.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

As decided at our last meeting in September, we will restart net purchases under our asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. We expect them to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Governing Council reiterated the need for a highly accommodative stance of monetary policy for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. In particular, the Governing Council's forward guidance will ensure that financial conditions adjust in accordance with changes to the inflation outlook. In any case, the Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

The incoming data since the last Governing Council meeting in early September confirm our previous assessment of a protracted weakness in euro area growth dynamics, the persistence of prominent downside risks and muted inflation pressures. At the same time, ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy. The comprehensive package of policy measures that we decided at our last meeting provides substantial monetary stimulus, which will contribute to a further easing in borrowing conditions for firms and households. This will support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, the sustained convergence of inflation to our medium-term inflation aim.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP growth was confirmed at 0.2%, quarter on quarter, in the second quarter of 2019, following a rise of 0.4% in the previous quarter. Incoming economic data and survey information continue to point to moderate but positive growth in the second half of this year. This slowdown in growth mainly reflects the ongoing weakness of international trade in an environment of persistent global uncertainties, which continue to weigh on the euro area manufacturing sector and are dampening investment growth.

At the same time, the services and construction sectors remain resilient, despite some moderation. The euro area expansion is supported by favourable financing conditions, further employment gains in conjunction with rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

The risks surrounding the euro area growth outlook remain on the downside. In particular, these risks pertain to the prolonged presence of uncertainties, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets.

Euro area annual HICP inflation decreased from 1.0% in August 2019 to 0.8% in September, reflecting lower food and energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline slightly further before rising again at the end of the year. Measures of underlying inflation remained generally muted and indicators of inflation expectations stand at low levels. While labour cost pressures have strengthened amid tighter labour markets, the weaker growth momentum is delaying their pass-through to inflation. Over the medium term inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and robust wage growth.

Turning to the **monetary analysis**, broad money (M3) growth increased to 5.7% in August 2019, after 5.1% in July. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The growth of loans to firms and households remained solid, benefiting from the continued pass-through of our accommodative monetary policy stance to bank lending rates. The annual growth rate of loans to non-financial corporations increased to 4.3% in August, from 4.0% in July 2019, while the annual growth rate of loans to households remained unchanged at 3.4% in August. The euro area bank lending survey for the third quarter of 2019 indicates a slight easing of credit standards and increasing demand for loans to households, while demand for loans to firms remained broadly stable. Our accommodative monetary policy stance will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of **structural policies** in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost.

Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance is currently providing some support to economic activity. In view of the weakening economic outlook and the continued prominence of downside risks, governments with fiscal space should act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies and meet structural balance targets, which will create the conditions for automatic stabilisers to operate freely. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances.

Likewise, the transparent and consistent implementation of the European Union's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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The IMF just at their last meeting raised concerns about the effects of low interest rates on the financial system, so my first question would be: what makes you so confident that more of negative rates and quantitative easing or asset purchases is doing more good than harm?

My second question would be on your legacy and whether you feel it's been tarnished by the recent discussions, which were unusually public, about the rift in the Governing Council and the disagreement about the policy action taken?

President Draghi: Well, the IMF didn't say that the negative rates are ineffective. As a matter of fact, the overall assessment of negative rates is generally positive. For us, it's very positive; it's been a very positive experience. Negative rates have stimulated the economy and affected positively employment, and so all in all we're exactly in the direction we wanted them to be. But the IMF also raised concerns about potential side effects of very negative rates for a long time. The discussion really didn't go into too much detail, but we are also aware of that and we are monitoring these risks. I should say that first of all we should distinguish different categories: banks, insurance companies, pension funds and other intermediaries. The overall assessment has been clearly positive. In other words, the improvements in the economy have more than offset negative side effects from low rates. The fact that we are monitoring this constantly is shown by our decision in early September of introducing a tiering system, which basically partly compensates the banks from the negative rates.

Now, your second question: frankly, the answer is no. We have discussions, everybody has discussions, all jurisdictions have disagreements when monetary policy decisions come to be discussed. These disagreements are often made public, often they are not, so I think it's not been the first time. I've taken this as part and parcel of the ongoing debate and discussions.

I have two questions. The first one is about the fact that the Governing Council tasked the relevant Eurosystem committees with examining options for the size and composition of potential new net asset purchases. Taking into account eventual committees' options and even if the Governing Council did not discuss this topic, given that the markets consider the APP's

firepower crucial, what is your opinion on the options that could be considered in enlarging the APP?

My second question is looking forward: what do you see are the main risks on your risk radar that you can foresee for the European economy and for the financial markets? In other words, what should we all worry about the most on the short-term and long-term horizon?

President Draghi: Since you're going back to the issue of voting and committees, let me just give you a few highlights. First of all, I will read sentences from the public account; the account you've seen. First, all members agreed that the further easing of monetary policy stance was warranted. Then we had an open discussion about the choice of instruments best suited to address current challenges. We give account of these discussions. Then we start going bit by bit, saying what sort of majority was for each part of the discussion. We say a clear majority of Governing Council members supported the broad package of measures that was ultimately decided upon in September. A large majority of members agreed to change the modalities of the new series of TLTROs. All members concurred with continued reinvestment. Members generally agreed with the proposal to enhance the state-based component of the Governing Council forward guidance on interest rates. A clear majority of members agreed with the proposal to restart net purchases under the asset purchase programme, with the modalities that I've just explained. A very large majority of members agreed with the proposal to lower the rate on the deposit facility by ten basis points. Finally, a majority of members went along with the proposed introduction of the two-tier system for reserve remuneration. This comes straight from the public account that you've seen.

No surprise that today, basically, the proposal of the chief economist – namely, to maintain the monetary policy stance – went, basically, through and was approved with unanimity. So it's not surprising, given these majorities. Now, coming to your point about the committees, let me again go back to the Introductory Statement in July, where we tasked the committees with examining options, including ways to reinforce our forward guidance on policy rates, mitigating measures such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new asset purchases. This is the introductory statement in July. Then, we have already gone through this on other occasions, but the function of the committees is to provide technical advice to the Governing Council and that's what they did. Then the Governing Council of course decides as it deems appropriate. It's not the first time that the Governing Council has a different mind; it's happened many other times, so no surprises there. It's all in a sense confirmed by maintaining the monetary policy stance today.

What are the main risks? Well, the main risk from all viewpoints, but especially also from a financial stability viewpoint, is a downturn in the economy. Whether it's global or it's the eurozone, that I think would be the main risk from all viewpoints: from the side of convergence of inflation to our objective obviously, from the angle of maintaining a high level of employment and of economic activity and of nominal wage growth as we have seen today, and from the angle of financial stability itself. Because clearly one of the great benefits that the banking sector – actually all players in the financial system – had from this accommodative monetary policy was the extraordinary improvement in the quality of their credit, of their assets more generally, which comes with a recovery, which basically affected positively the profitability of the banking system.